The World After Covid-19: Data and Trends

By Josh Hile

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We are currently living through a historically disruptive period that is likely to change, in ways big and small how we live, work and interact with others. While we are optimistic that the world's scientists will come up with a working vaccine in the next 12-18 months, behaviors have and will continue to change as a result of the Covid-19 pandemic. It generally takes two months for a new daily activity to become habit-forming, so we are now at the point where many people have settled in to what is being called "the new normal."

Below is a roundup of how the world is changing, based on what we're hearing from the asset managers we work with and other thought leaders. This is the type of information we gather routinely, but now it seems more relevant than ever. Some of these trends will inform our investment decisions, but they also help us advise clients who may want to start a new business, launch a new career, or act on a job offer, just to name a few life-changing decisions.

HOW WE WORK

- **Work From Home / Freedom to Relocate:** About a third of American workers have been fortunate enough to do their jobs remotely since the start of Covid-19. And a significant number of them are likely to continue working remotely at least part of the time after the pandemic subsides. Also, more companies are seeing remote work as a way to access talent that would not have been available otherwise, both in the US and abroad. Just as important, many workers welcome the option of commuting to work two or three days a week while living in lower-cost, slower-paced areas. That said, it remains to be seen if any of this will actually transform company culture and advancement; if not, remote work will remain an exception, driven mainly by the employee's role at the firm.

WORKERS LIKE WORKING REMOTELY

Once restrictions on businesses and school closures are lifted, if your employer left it up to you, would you prefer to:

	U.S. Adults
Work remotely as much as possible	**59%**
Return to working at your office as much as you previously did	41%

Based on U.S. workers who are working from home as a result of the coronavirus situation.
Gallup Panel, March 28 - April 2, 2020

+ PLUS

Tech that enables working remotely; home offices and nearby work spaces; businesses that cater to knowledge-worker hubs; single-family homebuilders.

— MINUS

Commercial real estate as companies reduce their office space needs, especially in urban areas (office buildings, corporate hotels and apartments).

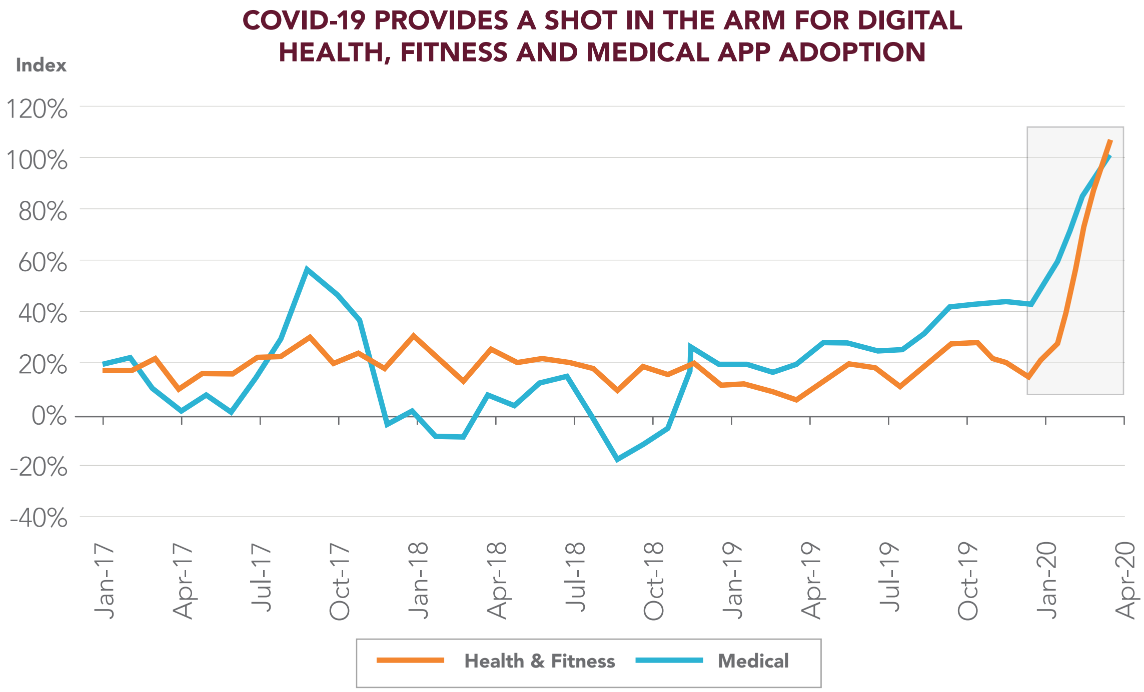
- **Less Business Travel:** The one-meeting trip is probably done for a while, as the pandemic has emphatically proven that many quick jaunts to far-off places were not really necessary. Further, the other party – customer/client/partner – is also likely to re-think the frequency of in-person meetings. Just as important, most businesses are looking to cut costs, and travel is a major budget item.

\+ PLUS: Enterprise software providers (i.e. teleconferencing, cybersecurity).

— MINUS: Airlines; corporate hotels and restaurants; hired transportation.

HOW WE LIVE

- **More Focus on Health and Well-Being:** People have had more time -– and reason – to think about their physical and mental health. This could well lead to a renewed focus on the outdoors, exercise at home or in small groups, healthy eating, and activities that promote positive thinking.



Source of Data: Morgan Stanley Research.

\+ PLUS: Well-being and workout providers and apps; home-fitness equipment; outdoors access and craft (bikes, kayaks, etc.); organic and locally produced food; meat substitutes; quick, healthy meals.

— MINUS: Mass-audience gyms and workout studios (those not offering differentiated services); processed foods.

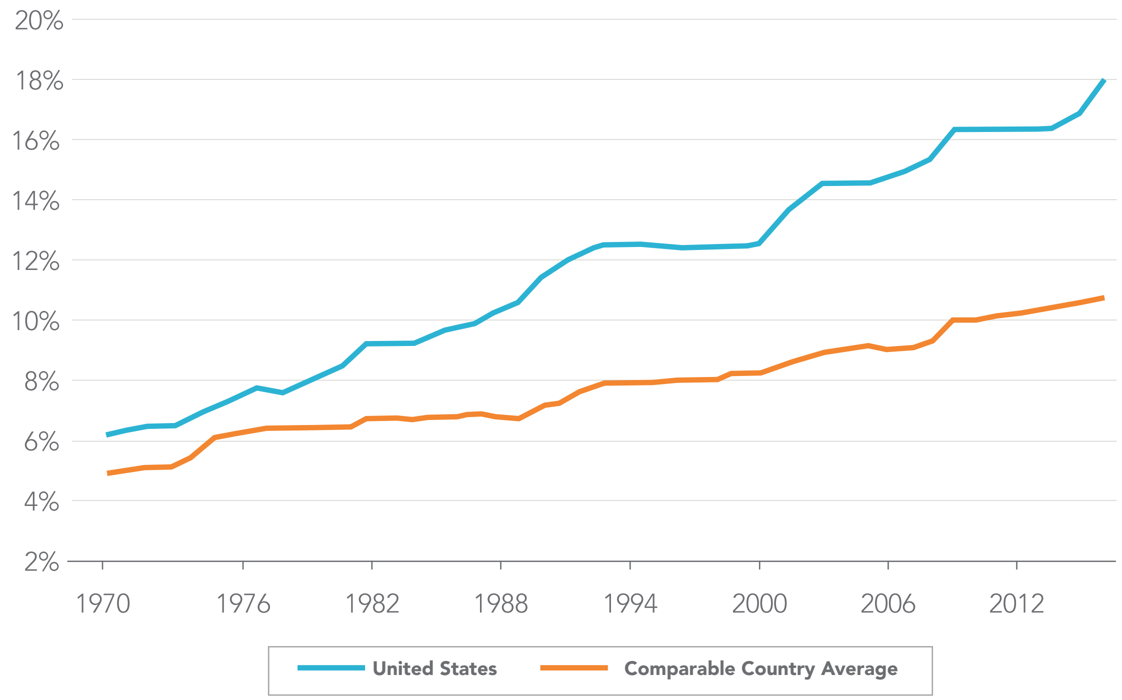
- **Renewed Focus on Family and Community:** Recent research shows that 20% of adults in the US have moved, had someone move in, or know of someone who moved, due to Covid-19. Most of these moves have been to be closer to family. Coupled with the economic slowdown, this is causing many – especially younger people – to rethink what is important and to try and rebuild family and community relationships. And this could well continue after Covid-19.

+ PLUS Moving companies; home builders in less expensive cities.

— MINUS Apartments and services in urban centers.

- **The Rise of Telemedicine:** It was clear before the pandemic that the US healthcare system is inefficient to say the least, as costs continue to rise without improvement in outcomes. Due to the pandemic, more Americans are talking to their doctors and nurses online for routine issues and also getting pharmacy prescriptions filled. Going forward, this should lead to greater access and help reduce the cost of basic and preventative healthcare (both physical and mental).

HEALTHCARE AS A PERCENTAGE OF GDP



Source of Data: KFF, Morgan Stanley Research.

+ PLUS Telehealth service companies; many health providers; perhaps health insurers (lower cost of care).

— MINUS Urgent care facilities and hospitals with large and expensive healthcare facilities.

- **Re-Imagining Higher Education:** Classes at many colleges and universities will be online only in the fall, causing students, faculty and administrators to re-evaluate the method and cost of advanced degrees. This could lead to things like BAs in three years and online-only for some classes or students who opt to be off-campus part of the time.

+ PLUS Students and their families, as the cost of college could plateau and perhaps decline; larger, well-funded universities.

— MINUS Small/poorly funded schools and/or those with low graduation rates or bad job placement.

- **More Online Resources for K-12:** As communities struggle with whether to reopen schools in the fall, many schools are adding more online instruction, which could continue past Covid-19 as a way to supplement teaching students with varying needs and abilities.

+ PLUS Digital education companies.

— MINUS Texbook providers; schools and students lacking access to technology.

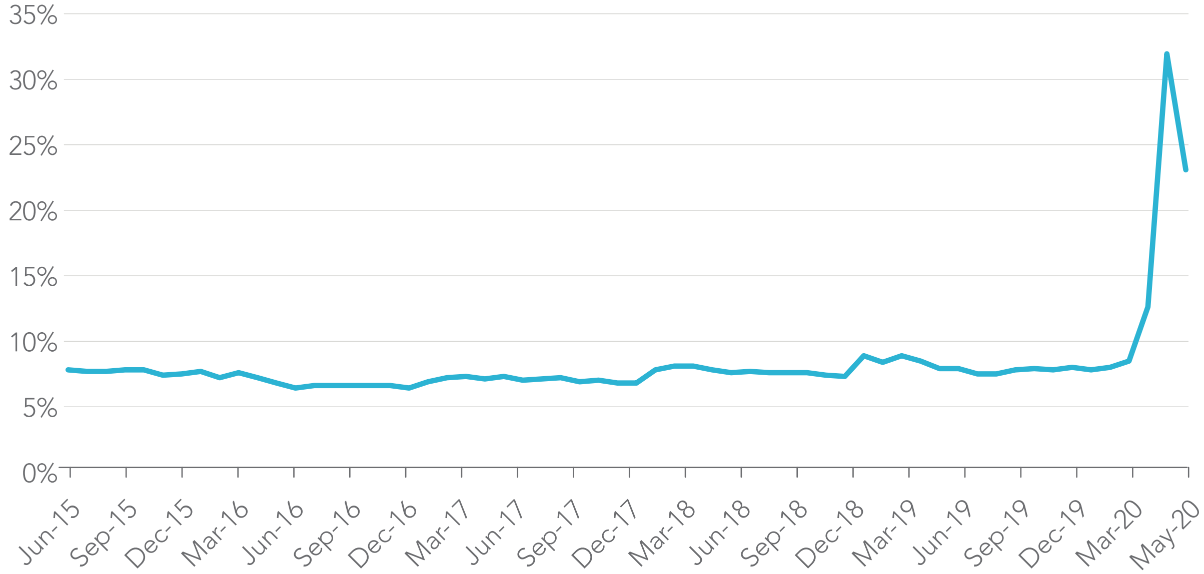
- **Shift to Cash-less Transactions:** More Americans have started using online banking and digital payment apps in addition to credit cards. This is accelerating even faster outside the US, as some countries have skipped credit cards and gone straight to digital payments.

+ PLUS Credit card providers; digital payment processors (PayPal, Square, etc.).

— MINUS Cash-based businesses.

- **Higher Savings.** Americans of all ages are spending less/saving more, including young adults many of whom struggled through the 2008 financial crisis and now the pandemic. This is generally a welcome trend, since the US savings rate has been way below 10% for the past decade. With US interest rates near zero and both real estate and stocks still near all-time highs, much of this savings is in cash, eventually to be deployed.

US PERSONAL SAVINGS RATE



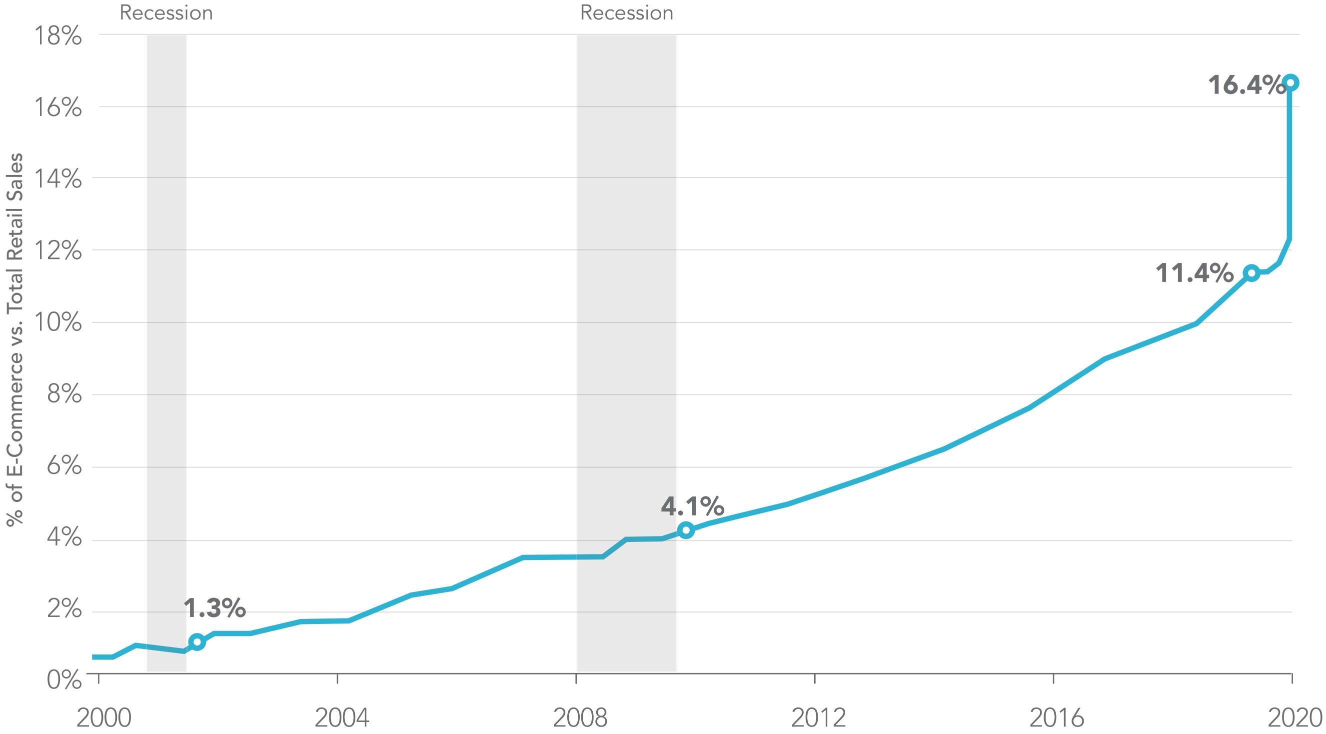
Source of Data: Statista 2020.

+ PLUS The US economy and markets as Americans eventually put their cash savings to work; goods and services that can compete on quality as well as price.

— MINUS Near-term economic growth; providers of "aspirational" goods and services that more people are likely to think of as non-essential and/or overpriced.

- **Online Shopping as Routine.** E-commerce was growing fast before the pandemic, but it has since become a necessity for many. Prior to Covid-19, many people liked going to brick and mortar stores to touch and see before buying. Going forward, more of these purchases are likely to be made online, based on convenience, price, and selection. As a result, even more companies will want to have an online/digital presence instead of, or in addition to, physical stores.

SHARE OF E-COMMERCE AS % OF TOTAL RETAIL SALES



Source of Data: US Department of Commerce, Moody's Analytics, REIS.

+ PLUS Specialty and mass-market retailers with strong online presence and efficient delivery networks.

— MINUS Walk-in stores without unique offerings; retailers unwilling or unable to invest in technology.

- **More Online Entertainment and Live Streaming:** At-home entertainment accelerated dramatically during the pandemic and will continue to garner a significant portion of consumer spending over the coming years.

+ PLUS

Providers of in-home entertainment systems; gaming; the many online movie streaming services and apps; entertainment providers (bands, orchestras, comedians) who can cultivate an online audience.

— MINUS

Traditional theaters (movies, shows), music and other types of festivals.

HOW WE DO BUSINESS

- **Subdued Globalization:** The relentless drive toward globalization has likely ebbed for a while, as closed borders due to Covid-19 foster an inward focus and domestic development of products considered essential to national health, safety and security. Many companies are looking to re-engineer their global supply chains to be less dependent on any one country and/or vendor, especially during times of crisis. This may put pressure on profit margins and increase prices.

+ PLUS

US suppliers with foreign competitors; US warehouses; countries in Southeast Asia that compete with China for manufacturing (Vietnam, India, etc.).

— MINUS

Companies in manufacturing, tech, retail and other industries that cannot diversify their global supply chains.

- **More Automation:** The higher costs of keeping employees safe at work during Covid-19 is making automation more attractive, in addition to being a way to reduce ongoing production costs. More companies in a wide variety of industries – not just manufacturing but also retail and services – will be doing a cost/benefit analysis to determine how to incorporate automation.

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+ PLUS

Companies that can use automation to boost profit margins and competitive advantage.

— MINUS

Unskilled workers.

- **More Clean-Energy Projects:** More infrastructure projects around the globe are likely as governments look for ways to lower unemployment and update crumbling infrastructure in a way that is less harmful to the environment. Large scale wind, solar, and other forms of renewable energy are being constructed with operating costs that are competitive with coal, oil and nuclear power.

+ PLUS: World-wide climate; job creation in renewable energy; manufacturers that devote resources to clean energy projects.

— MINUS: Fossil-fuel companies and workers.

- **Strategic Corporate Mergers and Acquisitions:** In a wide variety of industries affected by the economic slowdown, companies will look to survive and grow by merging with competitors. This includes retail, energy drillers/servicers, lodging, manufacturing, pharma/biotech, and waste management.

+ PLUS: Companies that can grow by merging or buying competitors.

— MINUS: Workers whose jobs are made redundant; financially weak companies without merger or buyout options.

- **Boost in Pharma/Biotech Capabilities:** The worldwide search for an effective Covid-19 vaccine is attracting more money and talent to pharma/biotech companies. This is likely to continue as pharma/biotech use new and innovative technologies – including detailed and inexpensive mapping of individuals genomes – to solve medical mysteries and cure disease.

+ PLUS: Biotech/pharma innovators, patients.

— MINUS: Cost of healthcare, as many of these innovations will continue to be expensive.

INSIGHT = OPPORTUNITY

Economic disruptions like the one created by the Covid-19 crisis are rare, and the long-term effects can be dramatic. It is precisely at such times that good information and analysis are critical. In assessing trends and opportunities, we rely on input from some of the best and brightest asset managers in the US and abroad, and then cross-check their responses looking for areas of commonality and divergence. This allows us not only to invest more wisely but to also advise our clients on new opportunities outside their investment portfolios.

At the same time, we are fully aware that the trends discussed above have socio-economic consequences, some of which could be negative for many Americans. It will take coordinated effort on the part of government and the private sector to open up more opportunity for all.

ABOUT THE AUTHOR

Josh Hile is a Senior Investment Research Analyst within Laird Norton Wealth Management's Investment Strategy and Research Group. He is responsible for analyzing developments in global equities markets and providing recommendations to LNWM's Chief Investment Officer, as well as conducting ongoing due diligence and monitoring of equity asset managers, including mutual funds, separately managed accounts and limited partnerships. Josh is a Chartered Financial Analyst® (CFA®) and a Certified Public Accountant. He earned his MBA at the University of Washington.

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